

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company)	
d/b/a Nicor Gas Company)	
)	Docket No. 08-0363
Proposed general increase in rates, and)	
revisions to other terms and conditions)	
of service)	

Rebuttal Testimony of

ROCCO J. D’ALESSANDRO

Executive Vice President of Operations
Nicor Gas Company

September 25, 2008

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Rocco J. D'Alessandro, Nicor Gas Company ("Nicor Gas" or the "Company"), 1844
4 Ferry Road, Naperville, Illinois 60563.

5 **Q. Are you the same Rocco J. D'Alessandro who submitted direct testimony on behalf**
6 **of Nicor Gas in this Docket?**

7 A. Yes.

8 **II. PURPOSE AND SUMMARY**

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. The purpose of my rebuttal testimony is to respond to the direct testimony of Illinois
11 Commerce Commission (the "Commission" or "ICC") Staff witnesses Mark Maple (Staff
12 Ex. 10.0), Mike Ostrander (Staff Ex. 4.0) and Dianna Hathhorn (Staff Ex. 2.0), and
13 Office of the Illinois Attorney General ("AG") and Citizens Utility Board ("CUB")
14 (collectively "AG/CUB") witness David Effron (AG/CUB Ex. 1.0).

15 **Q. Please summarize your conclusions.**

16 A. I conclude the following:

- 17 • The Northern Region Reporting Center ("NRRC") and Central Distribution
18 Center ("CDC") are properly included in the Company's rate base for the 2009
19 test year. These projects will be completed and in service by the end of 2009.
20 Moreover, these projects are prudent, as these facilities will serve to replace
21 existing facilities that will not meet the Company's future operational needs. For
22 these reasons, I disagree with Staff witness Maple's proposal to remove these
23 projects from rate base.
- 24 • Nicor Gas' 2008 and 2009 forecast of plant additions correctly reflects the
25 Company's planned plant additions through the end of the test year. The

suggested disallowances to plant additions proposed by Staff witness Ostrander and AG/CUB witness Effron fail to consider that the Company has been very accurate in forecasting annual plant addition expenditures.

- AG/CUB witness Effron's proposed operating adjustments related to payroll/headcount, Account 903 and Account 874 are wrong and should be rejected. As discussed in detail below, Mr. Effron's analysis is contrary to the facts, misapprehends the reasons for the increases in certain Accounts, or improperly results in a double disallowance.

III. ATTACHMENTS TO REBUTTAL TESTIMONY

Q. Please identify the exhibit(s) attached to your rebuttal testimony.

A. Attached to my testimony are the following exhibits:

- Nicor Gas Exhibit 18.1 is a copy of a survey that illustrates the layout of the current NRRC.
- Nicor Gas Exhibit 18.2 is a Letter of Intent regarding the development of the NRRC in Des Plaines, Illinois.
- Nicor Gas Exhibit 18.3 is a copy of the site plan for the proposed NRRC to be located in Des Plaines, Illinois.
- Nicor Gas Exhibit 18.4 provides additional information concerning the Company's analysis to develop the NRRC in Des Plaines, Illinois.
- Nicor Gas Exhibit 18.5 provides additional support for the need to construct a new CDC.

IV. RESPONSE TO STAFF WITNESSES MAPLE'S AND OSTRANDER'S DIRECT TESTIMONY

Q. Staff witness Maple proposes to remove from rate base the costs associated with the NRRC and CDC. (Maple Dir., Staff Ex. 10.0, 3:36-12:220). Do you agree with Mr. Maple?

A. No. Mr. Maple proposes to remove the costs of the NRRC and CDC from rate base based upon: (1) his incorrect interpretation of the "used and useful" test as set forth in the Public Utilities Act ("Act"); (2) his errant belief that the projects will not be

55 completed and in service by the end of the 2009 test year; and (3) his analysis that neither
56 of these projects are necessary for the Company to provide service to its customers. I
57 disagree with each conclusion. Both projects are necessary for Nicor Gas to meet its
58 obligations to serve future customer needs in a cost effective and efficient manner. Both
59 projects remain on track to be completed and in service prior to the end of 2009. As
60 such, both projects will be used and useful before the end of the test year. I will address
61 each project in turn below.

62 **Q. Mr. Maple identifies Section 9-212 of the Public Utilities Act (“Act”), as providing,**
63 **in part, the test for determining whether a project is “used and useful.” (Maple**
64 **Dir., Staff Ex. 10.0, 3:46-4:59). Do you agree with Mr. Maple’s reliance on this**
65 **Section of the Act?**

66 A. No. First, I acknowledge that I am not an attorney, and would observe that neither is
67 Mr. Maple. However, it appears from a plain reading of Section 9-212 that the Section
68 has nothing to do with a “used and useful” determination concerning the construction of
69 the NRRC or the CDC. Rather, the portion of Section 9-212 that he relies upon applies to
70 electric generation and gas production facilities. The NRRC and CDC do not fall into
71 either of these categories of plant. There should be no factual dispute that these facilities
72 neither generate electricity or produce natural gas. Accordingly, Mr. Maple’s reliance on
73 Section 9-212, and his claim that the Company must demonstrate an economic benefit in
74 order to have these projects included in rate base, is mistaken. I will leave it to the
75 Company’s counsel to brief the legal merits of Mr. Maple’s claim.

76 **Q. Turning first to the NRRC, Mr. Maple claims that the Company has not**
77 **demonstrated a need for the new facility. (Maple Dir., Staff Ex. 10.0, 9:156-12:220).**
78 **Do you agree?**

79 A. No. As I discussed in my direct testimony, the current facility's functionality is well
80 below our needs. The current facility is located in Park Ridge, Illinois ("Park Ridge"), in
81 a residential neighborhood. The configuration of the property and buildings, and the
82 roads surrounding the facility, make it difficult for our vehicles to maneuver within the
83 site, as well as to enter and exit the site. Attached to this testimony is Nicor Gas
84 Exhibit 18.1, which is a survey showing the Park Ridge site and its configuration. In
85 addition to its configuration issues, the facility is subject to a short-term lease agreement
86 which can be terminated on short notice by the lessor, the City of Park Ridge (the
87 "City"). Under the terms of the lease, the City can terminate the lease with 6 months
88 notice, which would present immediate operational difficulties and force us to find a new
89 location under less than desirable circumstances. Nicor Gas' planned use of the Park
90 Ridge facility always was temporary in nature. It has been the Company's plan to move
91 the NRRC to a permanent location.

92 As such, the Company has been seeking another location that would combine our
93 Northern Region Reporting Center and Meter Reading Facilities (located in Niles,
94 Illinois, and which also is a leased facility) in order to better house our facilities and
95 equipment. The proposed NRRC is needed due to the uncertainty surrounding the leased
96 facilities in Park Ridge and to properly size buildings and yard to support Operations. In
97 addition, our study results show owning a facility is preferable to leasing. Finally, this
98 new site enables us to better support our customers in a densely populated area.

99 **Q. Have any circumstances changed since you filed your direct testimony that may**
100 **impact the Company's decision to move forward with the construction of the**
101 **NRRC?**

102 A. The Company's analysis continues to demonstrate that a new NRRC is necessary. Since
103 I filed my direct testimony on April 29, 2008, Nicor Gas has selected a new site for the
104 NRRC project. Originally, the Company planned to purchase a site in Niles, Illinois for
105 purposes of constructing the NRRC. However, due to environmental issues discovered
106 during our due diligence, this site was determined undesirable. The Company now has
107 selected a site in Des Plaines, Illinois. At present, the Company is in negotiations with
108 the owner of the property to purchase the site and construct the appropriate facilities.
109 Attached as Nicor Gas Exhibit 18.2 is a document that shows that Nicor Gas has
110 completed a letter of intent and are progressing with our due diligence. In the past few
111 weeks, the Company also has begun to take the next steps to develop the NRRC. Since
112 Staff filed its Direct Testimony, the Company has supplemented its Data Request
113 Responses to Mr. Maple, which provides more support as to why the new NRRC is
114 needed, and our preliminary plans for the new site and updated project costs. One point
115 that should be noted is that the projected cost of the NRRC has increased from \$5.9
116 million to \$12.5 million. However, this increase is not currently reflected in the
117 Company's proposed revenue requirement.

118 I also have attached as Nicor Gas Exhibit 18.3, a copy of the site plan for the
119 Des Plaines site. Mr. Maple criticized the Company's originally proposed Niles building
120 for the fact that the square footage of the building was smaller than the Park Ridge
121 facility, yet the Niles property was larger than Park Ridge. Mr. Maple missed the point.

122 The issue is not merely one related to building space. Rather, the Company's concerns
123 about the Park Ridge site also include the lease and the need to provide better space to
124 move and house our equipment. Moreover, the Company will own the Des Plaines site.
125 The building on this site will be approximately 26,000 square feet (about the same size as
126 the Park Ridge facility), but the site will allow for ample room for Company trucks to
127 maneuver and park at the location. After careful analysis, there is no question about the
128 need to find a new site for the NRRC. Nicor Gas Exhibit 18.4 attached hereto presents
129 additional information reflecting the Company's evaluation of the NRRC project at the
130 Des Plaines site.

131 **Q. Mr. Maple also asserts that the NRRC will not be completed and in service before**
132 **the end of the test year. (Maple Dir., Staff Ex. 10.0, 12:212-16). Is he correct?**

133 A. No. We have been assured by our developer that building will be completed and ready
134 for service by year-end 2009 and, therefore, will be used and useful by the end of the
135 2009 test year.

136 **Q. Turning to the CDC, Mr. Maple asserts that the Company has not demonstrated**
137 **that a new CDC is needed. (Maple Dir., Staff Ex. 10.0, 4:68-7:112). Is Mr. Maple**
138 **correct?**

139 A. No. Mr. Maple first asserts that the Company has not demonstrated that consolidation of
140 the current Central Distribution Center and Meter Shop will provide economic benefits to
141 customers. Of course, as discussed above, that is not the appropriate standard to
142 determine if a project is used and useful.

The Company presented direct testimony and responded to data requests explaining the need for the new CDC. Since the time of filing direct testimony, the Company has commenced negotiations on a specific site. Meanwhile, our present facility will not meet our future needs because of the following:

- Additional 10,000 – 20,000 sq. ft. of space are needed for the CDC.
 - Additional space is needed to store items currently stored at rental locations, as well as space needed to “right stock” the storeroom. For example, the Company currently rents space to store vaults.
 - Additional space is needed to increase inventory in order to better manage long lead times for various items and materials (*e.g.* trunnion mounted ball valves, flanges, elbows, high yield fittings, etc.). These items have between an 8-24 week lead-time on delivery and currently are not inventory items.
 - Additional space is needed for the record center. Retention requirements have resulted in the need for more space to store documents and related materials.
- Training facilities in Elgin are too small for conducting both Steel and Plastic training.
- Training in Naperville currently is conducted in a main building, secondary building and in a temporary tent. Materials are stored in truck trailers.
- Some meters currently must be stored outside due to lack of available indoor space. As our natural gas system continues to grow, more space will be required to store new and used meters.

By constructing a new facility that will allow us to address these issues, including adding the Meter Shop at the site, the Company will have a functional facility that will allow us to better serve our customers today, and into the future.

In the past few weeks, the Company also has begun take the next steps to develop the CDC. Since Staff filed its Direct Testimony, the Company has supplemented its Data Request Responses to Mr. Maple, which provides more support as to why the new CDC is needed, and our preliminary plans for the new site and updated project costs. I have

attached to this testimony Nicor Gas Exhibit 18.5, which reflects the additional information provided to Staff supporting the need for the new CDC and further information on the site. One point that should be noted is that the projected cost of the CDC has increased from \$13.0 million to \$22.4 million. However, this increase is not currently reflected in the Company's proposed revenue requirement.

Q. Mr. Maple also claims that it is a “pipe dream” to believe that the CDC will be in service by the end of 2009. (Maple Dir., Staff Ex. 10.0, 6:104-09). Do you agree with his claim?

A. No. The Company has extensive experience in project planning and development. There is ample time to complete the project and place it in service by the end of 2009. Indeed, at this time the Company is working with our developer who has assured us that the building will be completed and ready for service by year-end 2009. Thus, the building will be used and useful by the end of the 2009 test year.

Q. Mr. Maple raises issues concerning Part 500 of the Commission's Rules and that it would be wise for the Company to discuss its Meter Shop plans with Staff. (Maple Dir., Staff Ex. 10.0, 7:128-9:150). What is the Company's position with respect to Mr. Maple's recommendation?

A. As Mr. Maple acknowledged, the Company already has indicated that it will work with Staff regarding its plans concerning the Meter Shop. The Company recognizes its Part 500 obligations and will meet these obligations. We further recognize the need to involve Staff in discussions related to moving the Meter Shop. As we proceed with the specific planning of a new Meter Shop facility, we will involve Staff. However, the fact

that we have not yet had discussions with Staff on this topic does not render the proposed CDC project unnecessary or improper.

V. RESPONSE TO CERTAIN RATE BASE ADJUSTMENTS OF STAFF WITNESS OSTRANDER AND AG/CUB WITNESS EFFRON

A. RESPONSE TO STAFF WITNESS OSTRANDER PROPOSED ADJUSTMENT TO 2008 AND 2009 PLANT ADDITIONS

Q. Would you please explain your understanding of Staff witness Ostrander's proposed adjustment to the Company's 2008 and 2009 forecasted plant additions? (Ostrander Dir., Staff Ex. 4.0, 3:54-4:78).

A. Mr. Ostrander proposed to reduce the Company's forecast plant additions by 2.87%, or \$11,427,000, in addition to Staff witness Maple's proposed disallowance of the NRRC and CDC. His reduction is premised upon a comparison of the 2008 and 2009 forecasts with the Company's actual experience for the years 2004-2007. Based upon his claim that the plant addition forecasts are not "accurate," he recommends a reduction of plant additions using the average the Company has overestimated plant additions during that four year period.

Q. What is the Company's position with regard to Mr. Ostrander's proposed adjustment?

A. Mr. Ostrander's position should not be accepted. It appears that his proposal is premised on one point: that, historically, the Company's forecasts for plant additions have not been "accurate." (Ostrander Dir., Staff Ex. 4.0, 4:68-71) As a result, a disallowance is in order. Such a position is misplaced.

217 Contrary to Mr. Ostrander's claim, the Company's forecasting has been
218 remarkably accurate. In fact, as Mr. Ostrander acknowledges, the accuracy of the
219 Company's actual plant addition expenditures has been, on average, within 3% of the
220 forecast for the years 2004-2007. I submit that such a performance demonstrates the
221 remarkable precision of the Company's forecasting. The Company's forecasting
222 performance during this period is impressive, particularly when one considers the sharp
223 increase in materials and supply prices that the Company has experienced since 2005.
224 Accordingly, rather than impose a disallowance, the Commission should recognize the
225 accuracy of the Company's forecasting and accept its proposed forecasted plant additions
226 for 2008 and 2009.

227 **B. RESPONSE TO AG/CUB WITNESS EFFRON'S GROSS PLANT**
228 **PROPOSED ADJUSTMENT**

229 **Q. Would you please explain your understanding of AG/CUB Witness Effron's**
230 **proposed adjustment to the Company's 2008 and 2009 forecasted plant additions?**
231 **(Effron Dir., AG/CUB Ex. 1.0, 4:8-7:9).**

232 A. Mr. Effron compares the Company's forecasted plant additions for 2008 to actual
233 expenditures through June 30, 2008. Through this comparison he found that actual
234 capital expenditures were approximately \$10.7 million under budget thus far for 2008.
235 Based on this finding, he proposes to reduce the Company's forecasted plant additions for
236 both 2008 and 2009. In particular, he reduces forecasted plant additions by \$10.7 million
237 in 2008 and 2009.

238 **Q. Is Mr. Effron's disallowance appropriate?**

239 A. No. First, as noted in my response to Staff witness Ostrander's proposed disallowance,
240 the Company's forecasting for annual plant additions has been remarkably accurate.
241 Second, such a year-to-date capital expenditure variance is no way indicative of an
242 annual variance, as evidenced in the following table of historical spending variances
243 (amounts in thousands):

244 **CAPITAL EXPENDITURE VARIANCE TO BUDGET**

245 Year	Jan. – June	July-Dec.	Annual
246 2006	\$(10,440)	\$9,330	\$(1,110)
247 2007	\$(13,619)	\$8,437	\$(5,183)

248 As can be seen from the above, it is common for Nicor Gas' capital spending to be under
249 budget for the first six months, as it is in 2008, and it is just as common to be over budget
250 in the last half of the year. The net result, is that the Company's annual capital
251 expenditures closely approximate budget, as noted above in response to Mr. Ostrander's
252 proposed disallowance.

253 **VI. RESPONSE TO CERTAIN PROPOSED OPERATING EXPENSE**
254 **ADJUSTMENTS OF AG/CUB WITNESS EFFRON**

255 **Q. Please describe which of AG/CUB Witness Effron's operating expense adjustments**
256 **that you will be addressing.**

257 A. I will address in detail Mr. Effron's proposed operating expense adjustments related to
258 payroll/headcount. Meanwhile, I will briefly address his claims concerning Account 903
259 – Customer Records & Collection, and Account 874 – Mains and Services Expenses.

260 A. **PAYROLL/HEADCOUNT**

261 Q. **Do you agree with Mr. Effron's proposal to reduce test year payroll/headcount**
262 **O&M expenses by \$4,447,000 / 106 headcount. (Effron Dir., AG/CUB Ex. 1.0,**
263 **18:18-21:3).**

264 A. No. Mr. Effron's proposal to reduce O&M payroll expenses based on 2008 headcount
265 variances should be rejected for the following reasons:

- 266 • As a result of headcount vacancies, the Company is incurring unbudgeted
267 overtime and contractor expenses in order to accomplish the workload related to
268 these vacancies. Overtime and contractor budget variances are significant and are
269 equivalent to 78 headcount.
- 270 • The Company currently has 89 pending hires.

271 Q. **How does the Company's use of overtime and contractors impact Mr. Effron's**
272 **proposed reduction to test year payroll/headcount?**

273 A. By referring to an average year-to-date 2008 budget variance of 106 headcount,
274 Mr. Effron erroneously bases his conclusion on a belief that labor-related O&M costs are
275 not incurred if headcount is temporarily below budget. However, this is not true for the
276 reasons discussed below:

- 277 1. Through August 31, 2008, the Company's hourly personnel have worked 55,000
278 more O&M-related overtime hours than budgeted. Such overtime variance is the
279 equivalent of 46 employees.
- 280 2. Contractors and consultants are utilized to cover the workload of employee
281 vacancies. Through August 31, 2008, the Company has incurred \$900,000 of
282 unbudgeted O&M contractor/consultant costs to temporarily offset the workload
283 that remains from these open positions. This equates to a 32 headcount increase if
284 we were fully staffed.

285 Therefore, Nicor Gas has incurred O&M expenses through August 31, 2008 equating to
286 78 headcount of the 106 headcount variance Mr. Effron assumes. Using Mr. Effron's

287 assumption of \$41,961 O&M payroll per headcount, these 78 positions would equate to
288 \$3,273,000.

289 **Q. Is the Company actively seeking to fill the Company's current headcount vacancies?**

290 A. Yes. As noted above, the Company currently has 89 pending hires. Pending hires
291 represent vacant positions that have been reviewed and approved by senior management
292 to be filled based upon the specific position's merits. The very fact that 89 positions have
293 been reviewed and approved by senior management indicates that such positions will be
294 filled.

295 **B. ACCOUNT 903 - CUSTOMER RECORDS AND COLLECTIONS**

296 **Q. Do you agree with Mr. Effron's recommendation to reduce Account 903 – Customer**
297 **Records and Collections test year O&M expense by \$3,035,000? (Effron Dir.,**
298 **AG/CUB Ex. 1.0, 27:7-12).**

299 A. No. I do not agree with this proposal for the reasons discussed in Company witness
300 Kevin Kirby's rebuttal testimony. (Kirby Reb., Nicor Gas Ex. 21.0). These expenses are
301 prudent, reasonable and necessary for Nicor Gas to continue to provide customer service,
302 timely and accurate billing and effective credit and collection processes.

303 **C. ACCOUNT 874 - MAINS AND SERVICES EXPENSES**

304 **Q. Do you agree with Mr. Effron's recommendation to reduce Account 874 – Mains**
305 **and Services Expenses test year O&M expense by \$3,248,000? (Effron Dir.,**
306 **AG/CUB Ex. 1.0, 26:1-2).**

307 A. No. I do not agree with this proposal for the reasons discussed in Company witnesses
308 Anthony McCain's and Jim Gorenz' rebuttal testimony. (McCain Reb., Nicor Gas

Ex. 20.0; Gorenz Reb., Nicor Gas Ex. 26.0). These expenses are prudent, reasonable and necessary for Nicor Gas to continue to provide safe and reliable service to our customers.

D. HEADCOUNT/PAYROLL, ACCOUNT 903 AND ACCOUNT 874

Q. Aside from the fact that the individual adjustments proposed by Mr. Effron to payroll expense, Account 903 – Customer Records and Collections, and Account 874 – Mains and Services expenses are inappropriate, are there any other issues with Mr. Effron’s proposed adjustments?

A. Yes. As noted above, one of the underlying drivers in the increase in Account 903 – Customer Records and Collections, and Account 874 – Mains and Services expenses, is headcount. This headcount is the same headcount that Mr. Effron also proposes to adjust in his analysis of budget to actual headcount variances. Said differently, Mr. Effron’s proposed adjustments to headcount/payroll, account 874 and account 903, are duplicative.

Q. What is the value of the duplicative adjustment that Mr. Effron proposes?

A. Between 2007 and 2009, headcount is projected to increase by 14 people in Account 874 and 25 people in Account 903. Using Mr. Effron’s assumption of \$41,961 O&M payroll per headcount, this 39 headcount equates to \$1,636,000. Based upon Mr. Effron’s proposal, this adjustment is counted both in his headcount/payroll variance and his Account 874 and 903 variances.

VII. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes.